



USAID
FROM THE AMERICAN PEOPLE

The Administrator

June 1, 2011

The Honorable John F. Kerry
Chairman
Committee on Foreign Relations
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

Thank you for the opportunity to review your Majority Staff report Evaluating U.S. Foreign Assistance to Afghanistan. Though we do not endorse all the conclusions in this report, we appreciate the report's recognition that USAID has performed admirably in a very complex and insecure environment. We also acknowledge that we can always do more to more effectively spend our aid money. We hope to move forward in a spirit of partnership with your Committee and look forward to continued cooperation in the future.

USAID is an essential component of our critical national security strategy in Afghanistan. Over the last 18 months USAID has tripled its staff in Afghanistan; aligned our efforts with our military and civilian partners; and demanded far greater accountability of ourselves, our contractors, and the Afghan government and local Afghan institutions. The results we are achieving attest to this progress. Even as the conflict there continues; the economy, food security, literacy, employment, and life expectancies all continue to rise, the government is more capable, and the democratic system more resilient. Afghan women's access to education, health care, economic opportunity, and political representation continue to rise. Once shuttered bazaars in Kandahar and Helmand are now thriving, and former opium fields are planted with high-yield seed. Millions of Afghans are seeing the possibility of a better, stable future. As the largest donor, by far, to these efforts, the generosity of the American people and USAID's careful stewardship of taxpayer resources stands behind all these gains. The sustainability of these gains is critical to our strategy.

There are some very important recent developments in how USAID does business that are not adequately captured in the report. Over the past 18 months, we have undertaken significant

analysis and review of our programs in Afghanistan; and we have changed, in some cases, very fundamentally, the way which we spend U.S. taxpayer money in order to increase the impact of our development engagement. Below are a few key areas that highlight these changes.

Impact, Afghan capacity and on-budget assistance: USAID is committed to building the capacity of the Afghan government, and spending a substantial portion of our development assistance through the Afghan budget, while ensuring the accountability, integrity, and transparency of those funds. We have had great success by focusing on a few important Afghan institutions – such as the Ministries of Finance, Public Health, Agriculture, Education, and Rural Rehabilitation and Development – so that Afghans can increasingly fund and deliver critical services on their own. Indeed, the enormously successful National Solidarity Program, which has reached over 22,000 Afghan villages, is funded through the government.

Overall, we currently spend approximately 38 percent of our funds on-budget. We plan to increase direct funding, but only when ministries are able to execute the development funds that they do receive, and do so accountably. An important innovation deserves mention, the Civilian Technical Assistance Program. USAID, in concert with other donors has provided the Ministry of Finance with funds to hire qualified Afghan advisors to provide capacity building to government ministries throughout the government. Salaries are consistent, resources are on budget, and we are building capacity in the Afghan government ministries while they are managing and spending our funds accountably and effectively.

Contracting: Where the Afghan government or civil society does not have adequate capacity to achieve results and account for money, we often contract out services to national and international firms and NGOs. We design and conduct these efforts in a manner intended to strengthen Afghan institutions and prevent corruption. Indeed a mixture of off-budget and on-budget investments is necessary to achieve the most effective results. Even the Ministry of Health's Basic Package of Health Services and the MRRD's National Solidarity Program, cited as successes in the report, involve contracting out for services, while at the same time building the capacity of the Ministry to lead and manage its programs.

Moreover, USAID has developed robust systems to improve contractor accountability. In a speech I gave at the Center for Global Development this past January, I highlighted our intention to increase scrutiny of contractors both for financial and impact accountability. The Agency has created a new Division within the Office of Acquisition and Assistance called Compliance and

Oversight of Partner Performance (COPP). The Division was formally inaugurated in February 2011 and has already completed more than 40 suspension and debarment actions, based largely on referrals from the Office of the Inspector General. The Academy for Educational Development (AED) is perhaps one of the most publicized examples of our use of the full range of tools increasing accountability of contractors.

Corruption and A³: Corruption is of course a real concern for both on budget and off budget assistance. I launched the Accountable Assistance for Afghanistan (A³) initiative in the fall of 2010 to help ensure that the Agency is taking the necessary steps to limit the likelihood of assistance directly or inadvertently supporting malign groups or being diverted from their development purpose by extortion or corruption. As a result, USAID is implementing safeguards in four areas, two of which strengthen our pre-award processes and two that strengthen our post-award implementation.

A number of changes have been made that significantly improve contractor oversight. First, USAID/Afghanistan now includes a subcontractor clause in new awards that permits USAID to restrict the number of subcontract tiers, requires the prime contractor to perform a certain percentage of the work, and prohibits subcontract “brokering” or “flipping”, which is when a subcontractor passes the work to someone else and increases the risk for corruption.

Second, we are increasing our financial controls through a joint program with the USAID Inspector General to audit all locally incurred costs of program-funded implementing partners. Audits will be performed by internationally-accredited regionally based audit firms and checked by the Inspector General. Third, USAID/Afghanistan is also increasing its Project Oversight through the establishment of On-Site Monitors (OSMs) in USAID field offices for project monitoring. Each USAID project will be assigned an OSM that will provide real time data to contract staff in Kabul on project performance and accountability.

Kabul Bank: USAID takes oversight of its awards seriously – at all levels. With regard to the well-documented crisis at Kabul Bank, USAID has terminated this part of the Deloitte contract in Afghanistan to ensure that our technical assistance is as effective as possible in light of changed and difficult conditions. Nevertheless, we do not believe that Deloitte, or USAID could have stopped the massive fraud that occurred at Kabul Bank. Deloitte, with USAID funds supported the Afghan Central Bank by providing trainers and experts to build the capacity of its Bank Supervision Unit. Oversight of the Afghan financial sector is conducted by Afghan

authorities, and actual bank supervision is a sovereign function of the Afghan government. The fraud committed by Kabul Bank officers was a criminal act, deliberately concealed by major shareholders and senior bank management. While there was private speculation about possible financial difficulties at Kabul Bank based in part on the crash of the Dubai real estate market, all donors were essentially caught by surprise at the Kabul Bank collapse. Kabul Bank's shareholder/officers alleged frauds and self-dealing caused these massive losses and hid them from Central Bank examiners through fake documentation and obfuscating accounting techniques to hide this from the Central Bank and other authorities. The initial outline of this fraud and revelation of the unprecedented level of loss did not occur until the Chairman of the Board of Kabul Bank began talking with Central Bank Authorities in the summer of 2010.

Transition and Development planning: USAID and State Department are very engaged in anticipating both the impact of the U.S. troop withdrawal on the Afghan economy, and on U.S. civilian resources. We are working on a longer term economic strategy, which looks to transition at the end of 2014 and beyond. We are aligning resources against critical "foundational investments" in economic growth, infrastructure, and human capital that will enable transition, and make it durable. These 'foundational investments' require significant upfront financial and policy engagement in the start phase, with financial costs and policy engagement tapering off once systems or infrastructure are in place or private sector takes over. These investments, for example, in extractive industries or in promotion of mobile phone money transfers, will best leverage the higher levels of financial resources that we currently have to ensure sustainability of our other investments as well as the security transition in the future. The report also notes that State has undertaken a massive uplift in civilians. USAID has been an important part of that civilian uplift and we are working hard both to ensure we have adequate staff on the ground now, and to plan for the future decrease in numbers as the security transition occurs.

Performance-Based Governors Fund: The Performance-Based Governors Fund is a relatively young, but important new program that is explicitly designed to move toward sustainability. USAID explored options of bringing PBGF fully "on budget" this year, but was informed by the Government of the Islamic Republic of Afghanistan (GIROA) that the capacities to effectively implement this program do not yet exist at either the central or provincial levels. Building GIROA capacities to be able to take on these functions are an explicit element of PBGF

expansion. The expanded program is designed to develop the capacity of GIRoA to oversee these funds, and include benchmarks to bring this program on-budget over 18 months.

Stabilization and COIN: USAID has been engaged in intensive review and analysis of its engagement in support of stabilization. While the body of the report highlights this, the summary and recommendation fails to acknowledge that we have been reviewing the impact of our stabilization programs and altering the manner in which we work in challenging areas to ensure that we maximize sustainable impact. The report notes that 80 percent of our resources are supporting COIN in the south, south-west, and east. According to our figures, and in close consultation with our military partners, roughly 65-70 percent of all of our resources are being spent in those areas. Some of these funds are being used for short-term traditional “stabilization” activities with short and long term impacts, while other funds are for longer-term activities that may be considered “developmental”, but which we consider to have a strong stabilizing effect as well. As the report acknowledges, we are working hard to identify appropriate programs for specific contexts and not dictate that a certain area receive a certain type of stabilization programming.

As we strive to improve our engagement in Afghanistan, it is important to acknowledge the enormous progress the Afghan people have made in rebuilding their government, economy, and society since 2001 with our support. At the time of the fall of the Taliban regime, there was no functioning government or civil service, no provision of basic services, no education for girls or public role for women in society, no proper financial system, and no rule of law. The development effort undertaken by the Afghan people in partnership with the international community, foremost the United States, has accomplished some astonishing things in terms of health, education, a functioning currency, a growing economy, and the foundations for an accountable, responsive government and society. Numerous challenges remain, as would be expected in a country amongst the poorest in the world, and still at war after decades of conflict.

I appreciate you offering us the chance to comment on this report.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Rajiv Shah', written in a cursive style.

Rajiv Shah